1812

THE NATIONAL CITY BANK OF NEW YORK

1925

Economic Conditions
Governmental Finance
United States Securities

New York, October, 1925

General Business Conditions

THE trend of business during the past month has been very satisfactory, justifying the expectation that the volume of trade this Fall will be the largest the country ever has experienced. The reason for it is that the industries have reached a better state of price relations than has prevailed hitherto since this country entered the war. The rise of prices of agricultural products which has occurred in the last year, and which is generally maintained upon this year's production, is the principal factor in this readjustment. A review of the agricultural situation is given in another place.

Railway traffic in the last two months has been on a scale never reached before in corresponding months of the year, and the notable feature has been the quantity of merchandise and miscellaneous freight. In the months of April, May, June and July this year, car-loadings although exceeding those of the corresponding months of last year, fell below the record of 1923, but since July all records have been surpassed. In the week ended September 5 merchandise, miscellaneous freight and less than car-load lots, aggregated 151,563 cars over the loadings of these classes in 1923 and 81,622 cars over the same classes in 1924.

All computations show that building operations are continuing with undiminished activity. The F. W. Dodge Corporation's report for August says:

> Construction started in the 36 Eastern States during the past eight months has reached a total of $3,778,792,000, an increase of 25 per cent over the corresponding period of 1924, and by far the largest amount for any similar period of any year. At the end of June, this year was 15 per cent ahead of 1924; at the end of July, 20 per cent ahead; and at the end of August, 25 per cent ahead. This shows the rapidity of the rise in building activity during the past few months.

Automobile and truck production in August was about 140,000 cars below that of July, but the decline was due in the main to a halt in production by the Ford Company, incidental to bringing out a new design. A majority of the manufacturers reported production larger than in July. In September the Ford production is larger and the others are showing the seasonal decline. The year's output will be larger than that of last year and probably as great as in the record year, 1923.

The cotton goods industry is distinctly reviving. Trade in recent weeks has been in large volume and the mills have more business in sight than in a long time. Furthermore, buyers are not so particular about the price, or so sensitive to the fluctuations of the cotton market, which gives a glimmer of hope to the manufacturer. Current reports of mills sold up several months ahead suggest that perhaps this hand-to-mouth habit of buying may not be so thoroughly fixed as has been thought. The goods trade took the addition of a couple of hundred thousand bales to the government's mid-September crop estimate more calmly than the speculative element did, and buying by the mills seems to have been the main factor in arresting the decline started on the cotton exchange.

Woolen and worsted goods offered at the recent opening of the American Woolen Company's lines are priced 5 to 10 per cent below last year's figures. The industry is seasonably more active, but buying is cautious in view of the tendency to lower costs. Wool supplies are large, and certain New Jersey mills have just put into effect a 10 per cent wage reduction, to correspond with recent action by New England mills.

The branches of the textile industry in which prosperity really abounds are the silk and rayon industries. Imports of raw silk in the first eight months of this year aggregated 298,996 bales, against 216,679 in the corresponding months of last year, but consumption has been at a higher rate. Stocks were reduced 29,516 bales in the same time, compared with a reduction of 10,000 bales last year. Prices are fully maintained.

The rayon industry is developing by leaps and bounds. Numerous announcements appear of new companies being organized to manufacture this material, and of its rapidly extending uses. Imports in the first seven months of this year were 2,967,000 pounds,

against 881,000 in the corersponding period of last year.

The bituminous coal industry has experienced a revival, due in part to the approach of Winter and in part no doubt to the suspension of operations in the anthracite field. Apparently no progress has been made toward a settlement of the strike.

Some Undesirable Tendencies

The business situation is essentially sound, but there are signs and tendencies of which it is well to take account. The extent of building operations this year is surprising, and suggests the danger that at the present pace they may be carried beyond present needs, and cause an unprofitable tie-up of capital. Speculation is rife in real estate, particularly suburban property, in many localities. The stock market has had a lengthy period of rising prices, justified in part certainly by the improvement in the business outlook which has taken place in the past year. Rising prices however, always stimulate speculative buying and there is a limit beyond which it cannot be safely carried on borrowed money. It is sufficient to point to the break in the market last Spring if proof of this generally accepted statement is wanted. Installment buying is creating a great body of indebtedness which will have a first claim on earnings in the future, and while it stimulates business in the present there may be unpleasant after effects. These are conditions that will bear watching: it is impossible to have prosperity without having developments of this character, which may run into excesses. The great body of the business of the country, however, is being conducted on conservative lines and is in no present danger of being affected by the conditions named.

It is well, from time to time, to sound a warning against the excessive growth of indebtedness. While the proceeds of the borrowing are being expended times are good, but expenditures cannot be maintained above the average production of new wealth for very long, and when maintained above the average for a time are certain to fall below the average a little later, while the balance is being restored.

Money and Banking

Money rates have been firmer in the past under increasing demands and some shifting of funds. "Other loans and discounts" in reporting member banks increased from $8,022,000,000 on July 29 to $8,296,000,000 on September 16, the latest date for which a statement has been made. This is the classification in which commercial loans are included, and the increase is normal for the season of the year. Moreover, it is notable that it compares with $8,222,000,000 on January 7 last, which is proof that there has been no speculative increase of borrowing for ordinary business purposes. It is to be considered also that all unsecured loans, for whatever purposes, are in this classification.

When it comes to loans secured by stocks and bonds, however, there is proof to the contrary, as they have increased from $4,698,000,000 on January 7, to $5,124,000,000 on September 16, and it is interesting to find that this increase was entirely among banks outside of New York City. The loans of New York City banks on stocks and bonds aggregated $2,002,000,000 on January 7 and $1,985,000,000 on September 16. This indicates that country banks have supplied the funds for the activity on the stock exchange in recent months. Apparently they have had an increasing supply of credit, as the result of better prices for farm products and the clearing up of old debts, and in the absence of home demand to absorb it have sent a portion of it to this market.

However, stock speculation in Wall Street cannot be charged with absorbing all of this increase of $426,000,000 borrowed on stocks and bonds since January 7, for money is borrowed on this kind of security for use in business, for real estate investment and other purposes.

In connection with the above statements relative to direct borrowings for commercial purposes it may be added that the amount of commercial paper outstanding has been comparatively low throughout this year. At the end of July it was lower than at any time since 1921.

Total investments of all reporting member banks on January 7 were $5,555,000,000, and on September 16, $5,464,000,000. They were $5,506,000,000 on July 29.

Total loans and investments of these banks were $18,661,000,000 on January 7 and $19,061,000,000 on September 16.

"All other loans and discounts" in the reporting banks on September 17 last year amounted to $8,022,000,000, from which they rose to $8,184,000,000 on November 5, and $8,222,000,000 on January 7. The increase from this time to January therefore was about $200,000,000.

Call money one year ago was ruling at 2 per cent, and now may be considered normally at 4 to 5; time money on stock exchange collateral then was ruling at 3 to 3¼, now 4½ to 4¾.

Commercial paper then was 3¼ and now is 4¼ to 4½.

Federal Reserve Banks

The twelve Federal reserve banks started the year 1925 with discounts and advances aggregating $264,000,000 and touched the year's low

on January 21, when they aggregated $203,000,000. On July 29 they were $468,000,000, and on August 26, $579,000,000, and on September 23 $640,000,000. Last year on September 24 they were $259,000,000.

One reason why interest rates have been ruling higher in the last three months than in the corresponding months of 1924 is that last year the Federal Reserve banks were increasing their holdings of securities with the purpose of regaining a position of influence in the money market, and this policy had the effect of putting more credit into circulation. Throughout this year they have systematically maintained their total earning assets rather closely around $1,100,000,000. Taking the first consolidated statement of each month, the figures are as follows:

January 7	$1,110,000,000
February 4	1,032,000,000
March 4	1,101,000,000
April 1	1,087,000,000
May 6	1,077,000,000
June 3	1,064,000,000
July 8	1,043,000,000
August 5	1,102,000,000
September 2	1,126,000,000
September 23	1,213,000,000

This stability in the volume of reserve bank credit has been obtained by varying the holdings of securities to correspond with increases or decreases of discounts and advances. As the latter have increased the former have diminished, and vice versa.

The money market is not "tight" or likely to be, and there is nothing in the commercial situation to call for an increase of the reserve discount rate. However, the increase of $468,000,000 in member bank loans on stocks and bonds since January, and of $768,000,000 since September, 1924, represents a tie-up of funds that is not viewed with favor. The increase since July 29 has been $88,000,000, which is fully proportionate for the time. The situation as a whole indicates that the member banks have been financing this increase by resorting to the reserve banks, and of course there is inducement to do this when the reserve rate is below the rate on stock exchange loans. This is the situation which has led to the surmise that the discount rate may be raised. The one argument against an advance is that British exchange is practically at the point where there would be a profit in gold exports, and the reserve bank of New York is desirous of cooperating with the Bank of England in discouraging a movement of gold from London to New York. The influence of gold imports on our credit situation might more than offset the effects of an advance of the discount rate. However, the discount rate might be raised and the gold movement averted by buying sterling bills.

If the stock market cannot stand the shock of a 4 per cent discount rate it would do well to get itself into condition for doing so. Of course, there is no reason for thinking that such a rate would signify anything actually unfavorable to the industries whose stocks are listed on the exchange. Four per cent is a decidedly low discount rate for any country to have in a time of prosperity.

The Bond Market

The bond market during September showed improvement practically all along the line, with funds flowing into permanent investments in greater volume than during any month since early summer. Mid-summer investment inactivity has apparently caused a considerable accumulation of investment funds, which are now finding an outlet through a substantially increased volume of new offerings. Individuals, banks and institutions generally have re-entered the market and are furnishing a buying support capable of withstanding a heavy volume of new securities.

The market on domestic corporate securities during the month showed a slight hardening tendency in spite of the increased volume of new underwritings. The Dow-Jones average for 40 listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials with 10 public utilities) on September 25th, was 92.24, as compared with 91.97 on August 25th, and 90.83 on September 25th, a year ago. The Municipal group, however, showed a substantial decline, high grade issues receding from about a 3.95 per cent basis to around a 4.15 per cent basis, or a decline of nearly four points on twenty-year average maturities. The municipal market is now back on a basis where the bonds are proving of real attractiveness. Renewed buying activity has been evident during recent weeks, especially among experienced individual investors and institutional buyers.

United States Securities

The market for United States securities moved throughout the month in close sympathy with the rather violent fluctuations in money rates. Earlier in the month when rates were showing an upward tendency, prices of United States securities reacted, but during later weeks they have practically recovered earlier losses. United States Treasury requirements were taken care of through a new issue of $250,000,000 Certificates of Indebtedness, nine month maturity, bearing interest at 3¼ per cent. The average rate on Government issues over the fiscal year ended June 30, 1925, was somewhat above 3½ per cent. The September issue just offered is the first Government borrowing during the present fiscal year, and, except for issues during the twelve month

period ended last June, the interest rate on these new short term obligations was the lowest since the first of such certificates of indebtedness were issued in April, 1917. This rate seems to testify to a money market which is comparatively easy now and not likely to change much in the near future.

New Offerings

The small volume of new bonds offered in August and in early September has given the market a chance to work off any signs of indigestion. Stocks in the hands of dealers are pretty well reduced and renewal of buying activity finds a scarcity of satisfactory offerings in many quarters. There is increased inquiry from many dealers for new underwritings as well as an absence of forced liquidation of holdings on the part of banks, seeming to indicate that there is an adequate reserve available for commercial credits as well as for permanent investments.

The existence of a strong buying power in the bond market for good domestic issues was emphasized by the rapid sale of the $50,000,000 Bell Telephone of Pennsylvania 35-year First and Refunding 5s, which were offered at 100 and sold later at a substantial premium above the offering price when listed on the New York Stock Exchange. The success of this issue, the month's largest offering, served as a stimulus for a vigorous buying movement which has been gaining momentum and promises to carry the whole market to slightly higher levels.

Foreign Bonds

New underwritings in the foreign field both from Europe and South America attained unusual prominence during the month with Germany occupying the center of the stage. The outstanding piece of German financing was the new issue of $25,000,000 German Rentenbank 25-Year 7 Per Cent Sinking Fund bonds which were offered at 93 and interest to yield 7.63 per cent. The major portion of these bonds was offered in American markets, and were heavily over-subscribed. That part of the issue offered in foreign markets was also quickly absorbed. The issue has been active on the New York Stock Exchange and has shown a marked upward tendency, the bonds selling at about one point above the offering price at this writing.

This German issue, undertaken by the newly organized Central Bank of Agriculture, is the most important piece of financing coming out of Germany since the Dawes plan loan. The Federal Land Bank System in the United States was in a measure modelled on the German system of mortgage borrowing, and the Central Bank for agriculture has been set up in Germany to centralize borrowings of old established agricultural loan societies, bring them under Government control, insure conservative and productive use of the borrowed funds and provide a mechanism for bringing long term German agricultural credits into the international investment market.

The French Debt

While the work of the French debt funding mission, recently arrived in Washington under the leadership of Finance Minister Caillaux, is yet hardly under way, there is strong reason to believe that funding plans acceptable to both sides will be developed. About the facts there is no dispute. France owes the United States as principal sum about $3,340,000,000. She acknowledges the obligation and is determined to pay. But no matter what willingness exists on the part of the French nation, the terms of payment, in order to be practical, must be based upon capacity to pay. Caillaux comes with a definite proposal, the terms of which have not yet been made public but which he has already declared embrace payments on a gradually increasing scale as French productivity and consequent paying power increases. With France definitely committed on her obligations and America inclined to treat in a friendly and sympathetic spirit the French proposals, there is every reason for optimism as to the ultimate outcome.

The French debt funding agreement is the master key to the solution of many other European difficulties. Should an agreement be reached with France similar agreements on the Italian debt are almost inevitable. Such agreements would again establish France and Italy as borrowers in foreign markets. The belief has been expressed in some quarters that the French debt situation will work itself out through refunding arrangements under which obligations now held by our Government may find their way ultimately into the hands of private investors, which would of course ease the strain of French payments. French industry and public works both are sure to enter American investment markets for their capital needs once the present obstructions are removed.

Among the principal new offerings for the month both in the domestic and foreign field were the following:

$70,000,000	Dominion of Canada 1 year 4 per cent, Notes, due September 1, 1926, price 99¾ and interest.
10,000,000	State of Illinois 4s, due from 1945 to 1954, inclusive, offered at prices to yield 4.15 per cent.
75,000,000	Dominion of Canada 4½s, due September 1, 1940, price 97¼ and interest, to yield over 4.75 per cent.
18,000,000	General Petroleum Corp. 1st S. F. 5s, due August 15, 1940, price 94¾ and interest, to yield over 5.50 per cent.
50,000,000	Bell Telephone Co. of Pennsylvania 1st & Ref. Series "C" 5s, due October 1, 1960, price 100 and interest.

25,000,000 German Central Bank for Agriculture 1st Lien Farm Loan S. F. 7s, due September 15, 1950, price 93 and interest, to yield 7.63 per cent.

10,000,000 Seaboard Air Line Railway Co. 1st & Cons. Series "A" 6s, due September 1, 1945, price 94¾ and interest, to yield 6.47 per cent.

17,500,000 Marshall Field & Co. Deb. 4½s, due serially each January 1, 1928 to 1946, inclusive, offered at prices to yield from 4.25 per cent to 4.90 per cent, according to maturity.

29,700,000 Government of the Argentine Nation Ext. S. F. 6s, due October 1, 1959, price 96½ and interest, to yield about 6¼ per cent.

10,000,000 State of Bremen, Germany, 10 year Ext. Loan 7s, due September 1, 1935, price 94⅝ and interest, to yield over 7.75 per cent.

15,000,000 City of Philadelphia, Pa., 4¼s, due September 16, 1975, price 101⅜ and interest, to yield about 4.15 per cent.

15,000,000 Free State Bavaria Ext. Serial 6½s, $750,000 due August 1, 1926 to 1945, offered at prices to yield from 6.50 per cent to 7.65 per cent, according to maturity.

The Steel Industry

The month of August brought a favorable turn in the steel industry, in which production had decreased since the first quarter of the year. Reports from trade centres indicate an improvement in incoming orders, particularly for rails and railway equipment, and a moderate expansion in operations.

The violent fluctuations of the iron and steel industry years ago caused Andrew Carnegie to describe its chronic state as that of either prince or pauper, and invites attention to some of its peculiar characteristics. Among these are the rapid increases and curtailments in the rate of production, fluctuations in the relative spread in prices of pig iron and finished steel products, and the decreasing importance of unfilled orders as a barometer. An important question at this time is that as to steel plant capacity; whether there is any justification for the opinion frequently expressed that the industry is overexpanded. Has its growth in the last ten years, which have included the great war, been greater proportionately than during similar periods in the past?

Fluctuations in Production

The monthly production of steel ingots during the last two years is given in the following table. The figures are those published by the American Iron and Steel Institute and are estimated totals, calculated from actual reports of companies representing 95 per cent of the industry. They do not include steel castings, which are not reported monthly and whose tonnage is about one-twentieth that of steel ingots.

MONTHLY PRODUCTION OF STEEL INGOTS
(In gross tons)

	1924	1925
January	3,633,639	4,198,564
February	3,809,185	3,756,243
March	4,187,942	4,198,520
April	3,333,535	3,587,524
May	2,628,261	3,458,253
June	2,056,466	3,207,056
July	1,869,416	3,087,590
August	2,541,501	3,424,034
September	2,814,996	....
October	3,111,452	....
November	3,107,226	....
December	3,551,825	....
Total	36,645,444	28,917,784

These figures illustrate the sharp fluctuations characteristic of the industry and which were exaggerated last year because of the National election. From a high point of 4,187,942 tons produced in March, 1924, the output was curtailed to 1,869,416 tons in July, making a drop of 55 per cent in five months. Then production turned upward and by the following January reached 4,198,564 tons, a gain of 125 per cent in six months. The first quarter's business of the current year was maintained at an approximately even level, then declined until July, and in August turned upwards again. The total output for the first eight months this year was 4,857,839 tons, or 20 per cent, ahead of 1924, but behind 1923.

Steel-making is one of the most basic of all industries, for its finished product supplies the raw material for numerous other lines to use in further manufacturing. Because of this basic nature, however, it is subject to more severe fluctuations in demand than are the industries situated nearer to the ultimate consumer. Retail trade in staple commodities enjoys a remarkable regularity and is little affected by changes in financial and business conditions, but the industries making "producers' goods" operate by fits and starts. Steel mills will be doing a rushing business one season when there is a building boom or when the railroads are prosperous, then face a season during which idle plants, high overhead expenses, bond interest, etc., rapidly eat up their surplus.

Prices Turning Upward

Quotations on pig and scrap iron after declining all this year, finally turned upward in August and the outlook is for fairly stable prices over the next few months. Pig iron, as measured by the "Iron Age" averages for foundry and basic, is now around $19.54 per ton. The difficulty of doing business in an industry whose chief raw material fluctuates widely in price is illustrated by examining the range of quotations on pig iron over the last five years. For September, 1920, the composite price above mentioned was $47.83 per ton, and during the ensuing twelve months of post-war deflation declined to $19.97. During 1922 it ranged from $18.14 in February to $31.78 in September, in 1923 from $30.83 in April to $21.40 in November, in 1924 from $22.84 in February to $19.31 in July, and for the current year it ranged from $22.50 in February to $18.96 in July.

Too much significance, however, should not be attached to pig iron prices, because of the fact that most of the leading steel manufacturers make their own pig iron, and many have

their own iron ore mines as well. The pig, therefore, represents to them a partially finished product to be used in further manufacture, and the question of price changes and stocks on hand is not so important to them as it would be if they purchased all their iron in the open market.

The "Iron Age" composite price of finished steel products, including bars, beams, tank plates, plain wire, open hearth rails, black pipe and iron sheet, is now 2.396 cents per pound, which is the lowest figure since August, 1922, and represents a 6.4 per cent decline from the year's high of 2.560 last January. This weakening of prices in the face of improved demand indicates that producers are competing keenly for business and that plant capacity is ample.

Scrap iron has become increasingly important in steel-making during recent years and the present practice is to use scrap for approximately 50 per cent of the charge and new pig iron for the other 50 per cent. The salvaging of the old material has become a large industry in itself. The sources of scrap are as varied as the use of iron and steel, although the greater part of it comes from a few well defined sources, one authority estimating that about 25 per cent comes from the railroads, 40 per cent from rejected products of iron and steel works, and the remaining 35 per cent from dealers' junk yards. Quotations on scrap are particularly sensitive to changes in trade conditions, and their fluctuations are regarded by many people as an excellent barometer of the industry. During August and September heavy melting steel scrap at Pittsburgh advanced 50 cents, to $19.00-$19.50 per ton, making a recovery of $3 from the low point in May, although recently it has shown signs of weakness.

Hand-to-Mouth Buying

The unfilled orders of the United States Steel Corporation at the end of August stood at 3,512,803 tons, a small decrease as compared with July 31st, but making the sixth successive month that they have fallen off, and are 33.5 per cent below the high point on February 28th. With the exception of the pre-election slump last mid-Summer this is the lowest they have been since the Fall of 1914, and if considered in relation to the growth in plant capacity they are the lowest in the quarter century of the Corporation's existence.

This does not by any means indicate that production is correspondingly curtailed, for the table given above shows a very satisfactory volume of output. Nor does it necessarily forecast any unfavorable trend in future business or profits, inasmuch as it is mainly due to a change in trade practice. A few years ago when demand was abnormally large and prices were advancing, it was customary for purchasers to place their orders many months ahead and advise the mills regarding specifications and shipping directions as needed, thereby holding a preferred position on the books of the mill. The delay and uncertainty of railroad transportation at that time was another factor which made for advanced orders and large inventories. At the present date, however, buyers know that the mills are prepared to turn out orders on short notice and that prompt deliveries by the railroads can be depended upon, which condition removes the need of making commitments far ahead. This practice acts as a check upon price advances, which are usually based on "back logs" of unfilled orders.

Is Capacity Excessive?

In view of the assertions frequently heard that our steel plant capacity is in excess of the country's normal demands, it is of interest to examine the record of actual production as compared with capacity, and the growth in capacity during the last decade as compared with other similar periods in the history of the industry.

The official figures for the trade are those collected and published by the American Iron and Steel Institute, an association whose membership represents a large percentage of the industry. In the following table are shown the figures for capacity and production of steel ingots and castings by five-year periods, the percentage of capacity used or "operating ratio," and the percentage of growth during each period. In certain instances during the earlier years the date of the capacity census does not exactly correspond with the end of the period and the census of the nearest date has been used. All figures are in gross tons of 2,240 pounds, with three ciphers omitted. (Capacity figures prior to 1895 which were expressed in net tons have been converted to gross tons.)

STEEL CAPACITY AND PRODUCTION IN THE UNITED STATES

(In thousands of gross tons—2,240 lbs.)

Calendar Year	Capacity	Increase %	Production	Increase %	Operating Ratio %
1875	584	—	390	—	66.8
1880	1,888	223.0	1,247	219.0	66.0
1885	2,820	49.3	1,712	38.3	60.8
1890	6.461	125.0	4,277	150.0	66.2
1895	12,001	85.7	6,115	43.0	51.0
1900	17,816	48.5	10,188	66.5	57.1
1905	25,190	41.2	20,024	96.6	79.7
1910	34,140	35.6	26,095	30.2	76.4
1915	45,788	34.1	32,151	22.9	70.3
1920	57.377	25.3	42,133	31.0	73.5
1924	61,137	6.5	37,932	Dec. 10.0	61.9

An examination of these figures discloses that the increase in plant capacity during the last nine years has been proportionately less than for any similar period, although it includes the 25 per cent increase during the war years 1915-1918. It is interesting also to note that the increase in production over five-year intervals has never been less than 30 per cent, except that 1924, a sub-normal year, shows a decrease as compared with 1920, a year above

normal. The "operating ratio" during the half century has ranged between a high of 79.7 and a low of 51.0 per cent.

It might be added that the Institute figures on capacity are based on reports received from their members and are more likely to be above than below actual capacity. They may include obsolete furnaces that are not being used and probably never will be, this being notably true of old Bessemer furnaces, which in recent years have been practically displaced by the open-hearth furnaces. In some instances companies are unable to run their furnaces at full capacity because of the fluctuating demands which different classes of products make upon their rolling mills.

One of the leading trade journals has prepared its independent estimate of what it terms "practical plant capacity," based on its own experts' calculations of the capacity of furnaces, rolling mills, etc., of each individual company; allowance is also made for the obsolete plants that are not likely to be used, and on a certain amount of time lost each year because of repairs and replacements. The Institute estimate of capacity December 31, 1924, was 61,136,805 gross tons, while the other authority's calculation of "practical capacity" was around one-tenth less. Comparatively little new construction took place in 1924, although there were some replacements and some rounding out of plants.

What Is "Normal" Requirement?

Any study of the country's annual steel requirements must consider the growth in per capita consumption in recent years due to our general industrial development, and particularly the tendency toward structural steel construction in cities and the increased use of automobiles and trucks. Then the natural growth in population amounts to around 1.25 per cent or 1,400,000 people per year for the continental United States.

Back in 1880, when the steel industry was just establishing itself, the per capita use of steel was 56 pounds, from which it increased in 1890 to 153 pounds, and 1900 to 299 pounds. Since then the "age of steel" has brought a requirement of 532 pounds per capita in 1905, 635 pounds in 1910, 725 pounds in 1915, 890 pounds in 1920 and 755 last year. While the per capita figure, considered year by year, shows a wide fluctuation because of the cycle of steel production previously referred to, yet its average over a period of years, and eliminating the high war production and the severe depression of 1921, has followed a very regular upward course and would indicate a normal per capita requirement of 800 to 900 pounds at the present time.

This estimate would appear to correspond very well with 1925 production so far. Output for the first eight months is at the rate of 43,000,000 tons annually, which on an estimated mid-year population of 114,104,000 and adding 1,500,000 tons for castings would be 870 pounds per capita. With the upturn that took place during August and the satisfactory outlook for the railroad, building construction, automobile and machinery industries, it seems probable that final 1925 figures will exceed this estimate and that the year will be recorded as slightly better than normal and considerably ahead of 1924.

An output of 44,500,000 tons would require operations at 72.7 per cent of capacity, based on the Institute's estimate of December 31, 1924. Many people regard this as very low, and consider "100 per cent operations," which were characteristic of the war period and are still found in certain lines, as the only satisfactory rate. It is not so in the steel industry, however, according to trade authorities. Because of the swings incident to the business cycle, and to the carrying of idle capacity during repairs and as a reserve, an operating ratio of 60 to 80 per cent is considered satisfactory. The high rate of the current year was in March with an average of 161,482 tons of ingots per day. If this could be maintained for a full year (312 working days) the output would be 50,382,000 tons of ingots, and adding 1,500,000 for castings, the total would be 51,882,000. This is more steel than ever has been produced in a year and would represent 85 per cent of capacity, as high as during 1917 when the country's steel producing resources were strained to the utmost.

Foreign Production Sub-normal

The United States produces over half of the world's steel. Following is a table showing the production of the principal countries last year, as compared with 1913. The figures are taken from the "Iron Trade Review" and for 1913 include Luxemburg with Germany, the major portions of Czechoslovakia and Hungary with Austria, and Poland with Germany and Russia.

WORLD PRODUCTION OF STEEL INGOTS AND CASTINGS
(In thousands of gross tons—2,240 lb.s)

Country	1913	Per cent	1924	Per cent
Australia	....	......	200	0.3
Austria	2,584	3.5	550	0.7
Belgium	2,428	3.2	2,850	3.9
Canada	1,043	1.4	725	1.0
China	....	......	200	0.3
Czechoslovakia	....	......	800	1.1
France	4,614	6.2	6,850	9.3
Germany	18,631	24.8	8,500	11.6
Great Britain	7,664	10.2	8,400	11.4
Hungary	....	......	350	0.5
India	....	......	225	0.3
Italy	918	1.2	1,100	1.5
Japan	13	......	550	0.7
Luxemburg	....	......	1,850	2.5
Poland	....	......	950	1.3
Russia	4,760	6.4	600	0.8
Spain	381	0.5	475	0.6
Sweden	582	0.8	400	0.6
United States	31,301	41.7	37,800	51.3
All others	100	0.1	200	0.3
	75,019	100.0	73,575	100.0

Conditions in the British and Continental iron and steel industry, excepting Belgium, are not very satisfactory, with prices weak and competition unusually keen both in home and foreign markets. Many of the smaller countries produce for local consumption only, and have an output totaling less than that of one of our individual American companies of the second or lower rank. Foreign producers have frequently submitted bids on American contracts this year and a limited though increasing tonnage is being imported. No serious effect on the industry in this country appears to have resulted so far from foreign competition, and our manufacturers have a natural advantage due to the cheapness and accessability of iron ore and coal, combined with the use of highly developed machinery. Still the course of imports will be watched with great interest and is closely associated with the question of plant capacity.

Wages and Prices

The U. S. Department of Labor recently published the results of a survey entitled "Wages and Hours of Labor in the Iron and Steel Industry, 1907 to 1924" (Bulletin No. 381), which contains very complete data from ten leading branches of the industry.

It will be recalled that before the war most plants were operated on a two-shift basis. During the war there was some tendency toward the three-shift system, but following the armistice many of the plants which had adopted the three 8-hour shifts for emergency reasons, returned to the two 12-hour shifts. In 1922 the President of the United States invited the steel manufacturers of the country to meet with him in Washington in an endeavor to find some means if possible whereby the long 12-hour shift could be eliminated. The conference was held May 18, 1922, and 41 of the leading manufacturers decided to abolish the long working hours of employes as far as practicable and as soon as labor conditions would permit.

In the Summer of 1923 the first general reductions were started and since then the number of full-time hours per week has been materially decreased, and wage rates were adjusted so that employes received but slightly less pay for the shorter shifts than they had formerly received for working the longer hours. Later, substantial wage increases were effected in practically every department, so that the increase in hourly earnings have even more than offset the reduction in hours per week and full time earnings per week show an increase in all departments except plate mills.

Of the ten branches of the industry studied by the Bureau of Labor the blast furnace and open hearth furnace departments employ by far the largest number of employes. Taking the latter branch as representative of steel-making, and taking unskilled labor, which is the largest class numerically on the pay-rolls, the report gives the following data. For purposes of comparison we have included also the composite finished steel prices of the "Iron Age" and the index number of the Bureau of Labor for general prices.

Average Wages and Hours of Unskilled Laborers—Open Hearth Furnaces

Year	Hours per Week	Earnings per Hour	Earnings per Week	Steel Price per Pound	Index No. Gen'l Prices
1910	74.5	15.7¢	$11.69	1.662¢	101
1913	76.2	18.7	14.24	1.663	100
1914	69.5	18.5	12.84	1.434	98
1915	70.8	18.6	13.19	1.534	101
1917	74.4	29.2	21.73	4.188	177
1919	76.2	46.8	35.66	3.115	206
1920	68.5	52.5	36.21	3.675	226
1922	67.9	35.4	24.22	2.220	149
1924	59.0	43.4	25.73	2.609	150

Comparing last year with 1913, the men worked 77 per cent as many hours, received an hourly wage 132 per cent higher, and made weekly earnings 81 per cent higher. Steel prices averaged last year 57 per cent above pre-war (the present figure is only 44 per cent), while the general price index for all commodities stood 50 per cent higher, and is now 60 per cent higher.

In the three-year period from July, 1914, to July, 1917, steel prices increased steadily, the "Iron Age" composite reaching 5.334 cents per pound, or 321 per cent of the 1913 average taken as 100. Thereafter they were stabilized by the War Industries Board at around 3.50 cents, or 210 per cent of pre-war. When the government regulation was discontinued and the post-war inflation developed, steel prices rose somewhat but not so much as did other commodities in general, and in May, 1920, when the general price index touched its peak of 247, the composite steel price mentioned stood at 228. The U. S. Bureau of Labor Index for Iron and Steel on May, 1920, stood at 232 and was slightly higher than the "Iron Age" composite for steel products, due to including iron, which had a large speculative advance, while the leading producers of finished steel followed a policy of holding prices down to reasonable levels so far as was possible.

The high figures for the nine groups included in the Bureau of Labor index tables are shown below.

WHOLESALE PRICES BY GROUPS
U. S. Bureau of Labor Index
1913 = 100

Group	May, 1920	Maximum for All Time Index	Maximum for All Time Date
Farm products	241	247	Jan., 1920
Foods, etc.	248	248	May, 1920
Cloths and clothing	328	346	Feb., 1920
Fuels and lighting	239	281	Sept., 1920
Metals and metal products	202	292	July, 1917
Building materials	293	300	Apr., 1920
Chemicals and drugs	213	231	Oct., 1917
Home-furnishing goods	247	275	July, 1920
Miscellaneous	208	208	May, 1920
All commodities	247		

When the "All commodities" reached their peak of 247 in May, 1920, the metals and metal products group was 202, and iron and steel, a sub-classification of this group, was 232. On that date the house-furnishings group was identical with the average for all commodities, foodstuffs, cloths and clothing, and building materials were above, while farm products, fuels, chemicals and drugs were below.

Wages clearly have gained over the cost of living since 1913, placing the steel-workers in a better position than ten years ago, and most of this gain has been accomplished without cost to the public, through the constant efforts of the steel companies to reduce their costs, by means of improved technical processes.

This is a record which the steel industry may view with satisfaction, and it may be offered as an "exhibit" in behalf of what is commonly called the capitalist system, as the tendency is the same in all branches of industry. In all lines, proprietors endeavor to improve the methods and lower the costs, induced by the hope of profits. The profits, when realized, afford the means for more improvements, and the chief results are better working conditions for the employes and better living conditions for everybody.

The Crops

The last weeks of the crop season were generally favorable to increased yields. The Spring wheat crop proves to have been above early estimates and about the same as last year's. The total yield of Spring and Winter wheat is about 700,000,000 bushels, which compares with 872,000,000 bushels last year and an average of 835,000,000 bushels over the last five years. The growers of Winter wheat in the Southwest suffered most in the reduction. The crop of North Dakota is about 114,000,000 bushels, against 134,000,000 last year. Fortunately, the grain is high in protein quality, and is generally selling at premiums above the quotations for the regular grades. The purchase of wheat on the protein content has become the common practice among millers, and this year millers are making the market prices east of the Rocky Mountains.

Production and Exports Last Five Years

The market situation is very unusual. Apparently not over 75,000,000 bushels are available for export, and this will go out mainly from the Pacific slope or in the durum variety. Practically no good milling wheat will be exported from east of the Rocky Mountains, as prices are higher here than there. No wheat has moved from Missouri River territory to Chicago this year, and the Southwestern mills are buying wheat in Minneapolis territory. The Chicago and Minneapolis wheat markets have been almost as high as the Liverpool markets and about 20 cents per bushel above the Winnepeg market. When allowance is made for the premiums paid for protein quality equal to the Canadian grades, prices in this country are above those in Canada almost to the extent of the 42 cent import duty.

The Northwestern Miller quotes the Minneapolis market in the week ended September 19 as follows:

> The heavy arrivals of wheat at Minneapolis continue to be absorbed readily. The better quality of arrivals are taken by mills, either local, outside or eastern, terminal elevators taking what is left. City mills temporarily show little interest in any wheat that tests less than 12 per cent protein.
>
> Premiums are higher, compared with the futures. Ordinary No. 1, northern wheat sells at September price to 1c bushel over, 12 per cent protein 5@8c over, 12½ per cent 10@12c over, 13 per cent 13@17c over, 14 per cent 18@20c over, and 15 per cent 23@25c over.
>
> Based on the close, Sept. 22, the minimum prices paid to farmers at country points in northern Minnesota for wheat were: for No. 1 dark $1.31 bushel, No. 1 northern $1.29; in southern Minnesota, No. 1 dark $1.37, No. 1 northern $1.35; in central North Dakota, No. 1 dark $1.30, No. 1 northern $1.28; in central Montana, No. 1 dark $1.33, No. 1 northern $1.31.
>
> The range of No. 1 dark cash wheat at Minneapolis for the week ending Sept. 19 was $1.47½@1.51, and of No. 1 northern $1.46½@1.55. No. 1 dark closed Sept. 22 at $1.47¾@1.67¾, and No. 1 northern $1.47¾@1.51¾.

The fact that prices on this side of the line are so nearly on a par with Canadian prices, and that imports from Canada are expected, causes prices in this country to fluctuate with the Canadian and world markets, although growers in this country will receive approximately 42 cents per bushel more than Canadian growers for wheat of equal quality.

Flour Trade Hurt

American millers are almost eliminated from the European foreign trade, according to the Northwestern Miller. It says:

> A year ago at this time mills could hardly supply the European demand for flour of every grade. They were fighting with each other for steamer space, and steamship lines were adding extra sailing dates for every vessel they had available. In commenting on the changed situation which exists currently, one miller quoted from his records to show that last year at this time he had sold 57,000 bbls. flour to Europe, whereas so far this year he has sold 800, and most of that was second clear. Inquiry among the mills reveals that this proportion is not far out of line.
>
> The trade with Latin America, however, has held up remarkably well. Mills which had already established their brands there have sold as much or more flour than at this time a year ago.

There remains the possibility of importing wheat in bond for the export flour trade, but the above report indicates that not all the mills with export trade are resorting to it.

Foreign Wheat Yields

With the exception of India, which seldom is an important factor in the export trade, all other countries have had a larger production of wheat this year than last. In Canada the crop is now officially estimated at 391,819,000 bushels, against 262,000,000 last year.

The Department of Agriculture on September 18 had reports from 29 countries, representing 98 per cent of the wheat production in the northern hemisphere outside of Russia and China, and from these has estimated the total in those countries in 1925 at 2,852,000,000, which compares with 2,634,000,000 in the same countries in 1924, and with 2,660,000,000, the average production in the same territory in the five years ended with 1913. As Russia's exports in those years were less than 200,000,000 bushels per year, it is evident that with Russia left out of the account world production is somewhat above the pre-war record.

With a record wheat harvest in Italy and large crops in France, Germany and the Lower Danubian countries, the European wheat crop for this year outside of Russia is 26 per cent above the 1924 production, the figures being 1,282,000,000 bushels, against 1,015,000,000 bushels in 1924, and 296,000,000 bushels, the average production for the five years, 1909-13.

These figures, however, do not reflect the entire change in the food grain situation, for the Department estimates an increase of 40 per cent in rye production in 17 countries for which it has returns. The crop of these countries is placed at 864,000,000, against 619,000,000 last year, of 245,000,000 bushels.

Outside of Europe the principal exporting countries are Canada, with 280,000,000 bushels to spare, Australia with perhaps 100,000,000 bushels, and Argentina with 150,000,000 or possibly more, but the last two countries have their crops yet to make.

English estimates have been counting on Europe importing about 600,000,000 bushels, partly to build up reserves, but in view of the latest news from the crops and particularly from Russia, this may be an over-estimate. The Russian exports have not been much as yet, but large amounts are talked of, and at present Europe is buying very little anywhere, resting on the belief that supplies are abundant. Canada is the principal shipper at present .

The Other Grains

The Government's September report reduced the corn estimate to slightly under 2,900,000,000 bushels, but although the crop was far advanced the rains that have fallen generally since are believed to have been of some benefit, and the yield is expected to be not far from 3,000,000,000 bushels. The price indicates a general opinion that this is large enough for the prospective demands, inasmuch as the hog crop next Fall and Winter will be considerably under that of the previous year. The Southwest, including Kansas, Oklahoma and Texas, has less corn than last year, and South Dakota suffered, but Nebraska and the middle west have a fine crop.

The Government's September estimate for oats is 1,462,000,000 bushels, or about 80,000,000 bushels over last year's final calculation. The Canadian crop is 100,000,000 bushels over last year's, and altogether the supply is considered excessive, with the result that prices have declined. The December delivery, Chicago, is about 39 cents, against a range of 49¼ to 54¾ for that delivery in September last year.

Rye and barley have declined with the other grains.

The Cotton Crop

The cotton market has been very unsettled for the past month on account of the diversity of crop estimates, the government figures being much at variance with private estimates. The government report of condition as of September 1st gave a production estimate of 13,740,000 bales against the preceding estimate of 13,970,000 on August 16. The trade was expecting an increase rather than a reduction and was quite unsettled by the surprise. A greater surprise, however, came in the government report as of mid-September, which raised the estimate to 13,931,000, although the private advices were that the crop had deteriorated since September 1st. However, the prevailing opinion is that the crop is close around 14,000,000 bales. Last year's crop was 13,640,000. The latest estimate by states is as follows, in comparison with the final figures for last year:

	1925-26 Bales	1924-25 Bales
Virginia	45,000	38,301
North Carolina	1,103,000	823,278
South Carolina	837,000	806,065
Georgia	1,019,000	1,003,664
Florida	32,000	18,961
Missouri	239,000	187,051
Tennessee	425,000	356,161
Alabama	1,063,000	985,221
Mississippi	1,447,000	1,098,276
Louisiana	729,000	490,505
Texas	3,873,000	4,951,999
Oklahoma	1,471,000	1,509,175
Arkansas	1,367,000	1,097,459
New Mexico	58,000	56.000
Arizona	94,000	107,505
California	113,000	77,798
All other States	16,000	12,062

The states east of the Mississippi river have raised a larger crop than last year, and Arkansas has beaten last year's record by 270,000 bales, but the burning drought in central Texas has reduced the crop by more than 1,000,000 bales.

One remarkable feature of the situation is that 4,275,498 bales from the 1925 crop had been ginned to September 16, against 2,665,763 to that date last year. The dry, hot weather has forced the crop to maturity, but this raises the question whether or not the damage to yield has been fully estimated. The price is around 23.5 cents per pound.

As the crop last year was slightly below the figures of this estimate, and the carry-over in

this country at the end of the crop year was about the same as at the end of the previous year, with somewhat larger stocks in Europe, it may be assumed that if the crop turns out to be as large as the government figures now indicate, there will be enough to afford the cotton goods industry a fairly stable basis of operations, at least until the next growing season opens. In view of the fact that stocks are not large enough to meet a crop shortage, it looks as though prices would be fairly well maintained.

One encouraging thing about the year's results is that the boll-weevil has been a diminished factor. Despite the boll-weevil the crop would have been 15,000,000 bales but for the extraordinary drought in the southwest.

Live Stock

Prices of live stock have been well maintained, and the outlook for producers is good. All quotations show a very substantial advance upon the prices of a year ago. The excellent corn crop is responsible for much of this gain, for to a great extent it is the raw material from which beef, pork and mutton are produced.

Receipts of cattle, calves, hogs and sheep at the nine principal markets in the eight months ending with August and for the corresponding months of 1924, were as follows:

	1925	1924	Per cent Inc. — or Dec. —
Cattle	6,596,357	6,506,601	+ 1.37
Calves	1,970,569	1,733,833	+13.65
Hogs	18,688,268	22,698,601	—17.69
Sheep	8,086,312	7,756,058	— 4.38

The movement of feeder cattle from these nine central markets in the month of August was 277,409, against 245,121 in the corresponding month of 1924, an increase of 13.14 per cent, but for the eight months ending with August there was a decrease of 5.19 per cent.

All reports indicate that a better feeling prevails throughout the cattle country, although the losses there have been so heavy that it will be a long time before they cease to be felt. Unfortunately, a great proportion of the range cattlemen are down and out, with no holdings left on which to ride back into prosperity. The cattlemen suffered from a succession of disasters. The Winter of 1919-20 was a terrible one in the northern range country, the depletion of herds and cost of feed being almost enough in themselves to wipe out the equity of those who were in debt. After this came the fall in prices, then forced sales which overloaded the markets, together with the competition of the greatest output of hog meat ever known, and finally the short corn crop of 1924, which was death to the feeder market. In the Southwest they had a succession of droughts which forced the movement of cattle.

The Cattle Situation

Dr. David Friday, formerly of the Department of Economics of the University of Michigan, and later President of the Michigan State College of Agriculture, in an address last month before the American Association of Joint Stock Land Banks, discussed the agricultural situation very effectively, and what he said about the cattle industry is pertinent in this connection. We believe that the best-informed people are in agreement with this forecast. The following paragraphs are taken from his remarks:

What is the ground for the belief that range cattle prices will be high this year and will remain so for six years to come? The principal reason for the high price of range cattle is the high price of fat cattle. This is due primarily to the small supply of hogs in the country this year as compared with last year and two years ago. We had a pig crop of 43,000,000 this year in the corn belt as against 47,500,000 last year and 57,000,000 two years ago. This means that 6,000,000 fewer hogs will be marketed than a year ago, for we will keep out more hogs for breeding; and 14,000,000 less than two years ago. The average hog dresses 166 lbs. so we will have 1,000,000,000 lbs. less pork available in the country than last year. And 2,300,000,000 lbs. less than we had in 1923. The average beef animal only dresses a little over 500 lbs. It would require 2,000,000 beef cattle therefore to make up the deficiency in pork as against last year; and 4,500,000 head to bring our meat supply up to 1923.

The feeder is just a machine to turn corn into beef. When the price of beef is low and the price of corn is high as was the corn in 19?4, the machine which converts one into the other will be cheap. In 1924 the abundance of hogs and the scarcity of corn helped keep the price of beef low and the price of corn high. Low stocker and feeder prices were inevitable under these conditions.

But this year the corn crop is 500,000,000 bushels larger than last. And there are relatively few hogs to eat it. So we have less competition for the corn. This will keep the price of corn relatively low. Nor will beef be obliged to compete with cheap pork in the retail markets. So the price of beef will be high. Naturally this will create keen competition for the feeder who turns cheap corn into high priced beef. Corn will probably be as low as 70 cents per bushel at the farm in November and December this year. The cheaper corn gets the more will they bid for a feeder steer who can turn that 70 cents corn into $14.00 beef. So the man who has feeders to sell should not be in a hurry, and his banker should help him in this program.

One other special matter in the situation should be mentioned here. The future for beef is going to be good for animals of high quality and younger steers. This is the first time for five years in which the older and poorer stuff could be sold at a good price. The scarcity of pork makes that possible. Every wise grower will take advantage of this situation to rid his herd of all his old stuff and leave only young cattle and breeding stock of the best quality.

So there are six years of prosperity ahead for the cattle country. I venture to predict that with improvement in quality and good management in marketing it will be the most prosperous six years the industry has ever enjoyed.

* * *

The reason why cattle prices remain high when once they rise is that it takes about four to six years to increase the supply of cattle on the market when once that supply gets low. And the reason they remained low during the 5 years 1920-1924 was that it took 5 years to decrease the supply materially. On January 1, 1920 we had 43 400,000 cattle other than milk cows in the country. That number was reduced to less than 40,000,000 on January 1, 1925. But to do it the country had to slaughter an average of 13,500,000 cattle each year and with 14,400,000 in 1924. We

ought to finish that off in this year of high prices and scarce pork with a slaughter of 14,000,000 in the 12 months from September 1, 1925 to September 1, 1926. The only way in which you can decrease the supply of beef cattle in the country is to increase the number slaughtered. But this keeps the price low while the reduction of numbers is going on.

In the five years 1912 to 1916 we were doing exactly the opposite thing. The country had slaughtered an average of 13,200,000 cattle in the five years 1907 to 1911 inclusive. Then the slaughter dropped to less than 12,000,000 in 1912, to 11,000,000 in 1914, and to less than that in 1915. The average for the 5 years 1912 to 1916 was 11,500,000. Between 1912 and 1925 the population of the country has grown about 20,000,000, or more than one-fifth. Our slaughter for the next five years should average about 13,000,000 cattle. If it does it will keep the price of beef cattle at a high level.

Dairy Products

Butter prices are 10 to 12 cents per pound higher than at this time last year, and storage stocks in 26 principal markets on September 19 were 89,820,959 pounds, against 117,848,899 pounds at the corresponding date of last year. Hot, dry weather and poor pastures were a factor, but European markets are correspondingly higher. Although a little Danish butter has come in lately the cost price landed is above the domestic market. European consumption has been larger. The cheese market also is in good shape, although the make is increasing.

The New York Produce Review, September 23, 1925, says:

"Concentrated milk products are in better shape; demand has been active and production decreasing with a general tendency toward fully sustained and slightly higher prices on all whole milk lines."

Unsatisfactory prices for grain and live stock in the last few years have caused farmers to give more attention to dairy products, poultry and eggs, which may be produced in all parts of the country. Over the five years from 1920 to 1924 receipts of eggs at the four principal markets where the surplus of all sections tends to aggregate, increased 25 per cent and the receipts of dressed poultry increased 80 per cent. Storage stocks of eggs in 26 cities on September 18 this year were 6,259,113 cases, against 5,561,000 on the corresponding date of last year. Storage holdings of dressed poultry on August 31st were 48,087,000 pounds, against 33,837,000 pounds on that date last year.

Consumption of all these articles of food is increasing, as also that of fruits, vegetables and numerous delicacies formerly unknown. It is a symptom of a constantly rising standard of living.

Fruit and Other Crops

Conditions in the fruit districts of the Pacific Coast are improved over last year. The apple crop in Oregon, Washington and Idaho is good. We are indebted to the September Letter of the First National Bank of Los Angeles for the following information:

Total shipments of all oranges for the crop year to August 27th, aggregated 34,722 cars. Although this is a decrease compared with last year, yet the aggregate money return to growers will far exceed previous years because of high prices prevailing throughout most of the season.

The condition of the 1925-26 orange crop on August 1st was 84 per cent of a normal as compared with a ten-year average of 75. The Florida orange crop was 85 per cent of a normal on August 1st, as compared with 89 last year and 94 in 1923.

Prices on California lemons averaged $4.41 per box for the week ending August 22nd, as compared with $4.54 per box a month ago, and $3.21 per box for the week of August 23, 1924. While there was a slight decline in prices as compared with a month ago, markets have, nevertheless, continued strong.

The condition of the lemon crop on August 1st was 80 per cent of a normal, compared with 78 last year and a ten-year average of 78.

Estimates of deciduous fruit crops in California indicate an increase over last year's production. The peach crop is estimated at 387,000 tons, as compared with 320,000 tons last year.

The general market for dried and canned fruits is strong. The old crop of prunes has been entirely sold. The new prune crop in California is about as large as last year's. The Oregon crop is short. The European crop is larger than last year's but far short of normal. The Association's opening price on the new crop, effective August 31, 1925, is about ½ per cent above the spot market price on the old crop.

Raisins showed an upward price trend during August. The sales of 1924 raisins have been larger during the summer than has been the case for several years. Foreign sales have increased.

The estimate of raisin production has been decreased from 290,000 tons to 261,000 tons. Production will probably be about 30,000 tons less than for the record year, 1923, but 80,000 larger than last year.

Grain harvesting has been completed. Yields were generally satisfactory, particularly for oats and barley. Prices have been higher than for several years, and farmers have promptly marketed their crops. Grain farming has netted good profits this year and has strengthened the agricultural situation throughout the Pacific-Southwest territory.

The New York Journal of Commerce reports Eastern markets above last season for potatoes, onions, cantaloupes, peaches and cabbage. It is about the same or a little lower for apples, pears, celery and sweet potatoes.

The greatest change is in potatoes, the crop being about 344,000,000 bushels, against a record crop last year of 455,000,000 bushels, and a five year average of 418,000,000 bushels. It is possible that there may be importations from Europe. The Canadian crop is not large.

The Law of Supply and Demand

The advocates of a special program of legislation in behalf of agriculture have not wholly ceased their efforts, although they are obliged to admit that conditions as to agriculture have improved very much in the past year without the price-fixing legislation which a little more than a year ago seemed to them indispensable. Their argument now is that the improvement has been due to weather conditions—short crops here or elsewhere—and that with large crops everywhere prices will fall and the farmers be in the same hopeless condition heretofore described.

The opponents of price-fixing legislation do not deny that if in the future the production of farm commodities shall be in excess of demands prices will fall. They have contended

that the low prices of the past were due to excess production, and that the true remedy for them was in diminished production. That contention has been completely proven by the course of prices in the past year. They have in all cases risen as supplies diminished and declined as supplies increased, and it would seem that the reasonable policy is to accept the lesson and endeavor to adjust production to the consumption requirements, instead of continuing the agitation for governmental price-fixing.

The market report tells the story of the relation between supply and demand, and continually show a complexity of conditions which must baffle attempts at artificial regulation. As illustrating this we give below a paragraph taken from "Crops and Markets," the publication issued by the Department of Agriculture, latter part of May. It relates particularly to the crops of melons, fruits and vegetables, and indicates the wide territory from which these supplies come, and the competitive conditions which necessarily exist:

California cantaloupes, Florida watermelons and Georgia peaches were starting to market in considerable volume during the week ending May 16, with the shipping season for all those products much earlier than usual. First car of cantaloupes rolled from the Imperial Valley of California on May 7. That section usually furnishes more than half the total national supply of cantaloupes shipped by rail or water. Last season Imperial Valley forwarded about 15,760 cars and in 1923 about 12,990 cars, compared with less than 8,000 in 1919. This year's acreage is almost the same as that of 1924, but with reduced yield the total shipments probably will not be so great. First arrivals in New York City sold to jobbers at $14 per standard crate of 45 melons, with flat crates bringing $5. Southeastern cantaloupe supplies likely will be small, but Arizona expects more than last year, and slightly heavier plantings are indicated for the other intermediate and late cantaloupe states. Strawberry shipments from the important mid-western sections apparently have passed their peak, thus leaving a good outlet for Virginia, Maryland and Delaware stock. The crop in those three states is one-third less than last season's heavy production. Markets took the increased supplies of berries at good prices, but f. o. b. sales everywhere were made at lower ranges. Cabbage closed distinctly lower, after the recent high levels, and Virginia has become the leading source of supply. Onion prices remained strong, both for southern Yellow Bermudas and for old stock and imports. The season was becoming active in the Coachella Valley of California, with growers and shippers quite optimistic as to the outcome.

With supplies coming from such an expanse of territory, and competition between the various products which appeal to the appetite, evidently over-production is possible, and must be guarded against by intelligent effort. The producers must learn by experience and through such timely information as they can gather, how to adjust the production of any locality, and of particular commodities, to the demands of that particular time of the year when the supplies are wanted. If they overload their particular market the penalty is low prices.

The Potato Crop

The potato crop offers another highly complex situation. South Texas and Florida are first in the market, their products competing with the stored supplies from the previous year's crop of the northern states. Potatoes are grown in every locality, but do better in some soils than in others, and soil adaptation plus climate determine the chief sources of supply. Here is a paragraph from the bulletin of the fruit and vegetable division of the Department of Agriculture, written at the beginning of last June, when it was just developing that this year's crop would be short:

Markets strengthened suddenly and sharply at the end of May, when weekly shipments of old stock dropped to a volume lighter than at any time since January 1. With reductions of 10 to 15 per cent in potato acreage along the Atlantic Coast and drought-reduced yields in some of the southern states, supplies yet to come from these early and second early sections can scarcely equal last season's output. The market position is further strengthened by the fact that aggregate plantings of early potatoes in Kentucky, Oklahoma, Missouri and Kansas show no increase over last year and that the acreage in south-central Nebraska is lighter than in any recent season, totaling only 1,800 acres, compared with 8,000 in that part of Nebraska in 1922. Forecast of production in ten early states is 20,218,000 bushels—about 9,000,000 less than last spring, but nearly 2,000,000 more than in 1923. In eight second-early sections, plantings total 82,700 acres, a reduction of 8,700 since 1924, and the lightest acreage in five years. New Jersey is reported to have only 31,000 acres in early potatoes. That state had 37,700 acres last year and 41,100 two years ago.

The plains states, Idaho, the Dakotas, Minnesota, Wisconsin, Michigan, are surplus producers and Maine, New York and New Jersey are large producers. The potato crop is very variable in yield, and potatoes cannot be carried over from one year to another. The result is that when every state has a good crop, prices are so low that potatoes cannot be moved long distances. In 1922, when 453,000,000 bushels were grown on the largest acreage ever planted, potatoes did not pay for digging in many localities. The reason is apparent, but blame was freely distributed at the time to Wall Street, the Federal Reserve banks and other imaginary enemies.

The growers of each state have their natural markets, but their sales overlap, and make the results uncertain. There are good rewards in some seasons but there are inherent risks in the business which those who have the rewards must carry, and guard against as best they can. The best protection would seem to be by not having too many potatoes in one basket. The business may average well but break a man who stakes too much on a single crop.

The relation between the corn crop and live stock production is another example illustrating the equilibrium which must be maintained and the part which price plays in maintaining it.

Price the Regulator of Production

The lesson everywhere is that price depends upon the relation between supply and demand, and that prices are the only trustworthy regulator of production. It is the only regulator whose influence will reach every producer, and the only one which directly represents the consuming public. Everybody who is willing to pay a given price for anything helps to make that price effective, and no price can be made effective without just that support. To fix an arbitrary price, which does not have this popular support, for the purpose of giving better returns to the producer, is certain to have the effect of encouraging a volume of production which will not be consumed, and is unsound policy.

Crop deficits somewhere are the common order of nature. It is exceptional to have full production all over the world in the same season. Agriculture as a whole is adjusted to the expectation of less than full crops as a rule, and the individual producer must adjust himself to the possibility of seasonal over-production. It can be done in the staple crops, either by diversification or by a carry-over in years of over-production. The most economical carry-over is that of the individual farmer in his own bins.

The possibility of over-production of farm products is not a new development to be contended with. The opportunity offered in years past to obtain ownership of cheap land in the new regions of the world has stimulated the farming industry to such an extent that current returns from cultivating the soil have been small much of the time; nevertheless, the final returns, including the gains of ownership, have not on the whole been disappointing.

Secretary Jardine's Views

Secretary Jardine, of the Department of Agriculture, who just now is the target of the government-aid advocates, has very practical views on the subject. He is quoted as follows:

> In speaking of reasons why farm products have, at times, been in excess of market needs, Mr. Jardine said that the manner in which farm land area has been expanded is in no small measure responsible. "No effective policy has been devised to avoid the tendency toward over-expansion. We have thrown open freely to settlement large tracts of land, without carefully considering the need for additional products or the possibility of farmers succeeding on these lands. Too frequently lands that were fit only for grazing have been plowed up and planted to crops, with results that have been highly disastrous. I firmly believe that we should put to the most efficient use the land already under cultivation, and wait for the time when we can sell for a profit the products now grown, before launching into any great expansion of farm lands."

The possibility of over-production is inherent in a situation that has such possibilities of expansion. The earth undoubtedly is capable of supporting a vastly greater population than it now has, but there is no sense in encouraging or subsidizing a greater production than is needed. The rational view of all research work for improving the methods of agriculture is not that more food shall be produced than can be eaten, but that the required amount may be produced at lower labor cost and by fewer people. That this is being accomplished is evident from the statistics of agriculture. If there is danger of over-production, why not recognize that fewer people are required on the farms and that any excess can find more profitable employment in other industries until the equilibrium is restored?

The Argument of Country vs. City

The entire argument for a program of "relief" for agriculture is based upon the mistaken idea that a given number or share of the population should be engaged in agriculture, and should be maintained there, even though a less number would produce the required quantity of products. Of course, this view cannot be sustained. Undoubtedly there is a strong predisposition to believe that country life is more wholesome than city life, and that a nation is stronger and safer which has a great proportion of its people living on the land; but it is useless to produce more food than can be used, and useless to resort to artificial expedients to keep up the price if a surplus is produced. The relative compensation and standard of living of city dwellers and farm dwellers will be fixed finally by their relative numbers.

The Dominating Influence

Despite all that is said to the contrary the law of supply and demand is operating practically as it always has and the same in the other industries as in agricultural products. Sugar is an agricultural product, but has been commonly thought of as under the control of rich corporations. The industry is suffering from low prices today more severely than any other branch of agriculture, simply because it was unduly expanded under the stimulus of war-prices. There is no help for it except as production declines or consumption increases.

The group of products classified by the Bureau of Labor as "metals and metal products," including iron and steel, copper, lead, zinc and various products, had an average price-level in the month of August only 27.3 per cent above the 1913 level, while the level of general commodity prices was 60.4 per cent above. The prices of oil and gasolene are popularly supposed to be under control, but there has been abundant evidence in recent weeks to show that they cannot be held up against production which exceeds the demand.

The General Agricultural Outlook

Dr. David Friday, quoted above, in the same address from which the foregoing quotations are taken, gave a review of general agricultural conditions which will repay reading. We append additional extracts herewith:

If we select as a starting point the year 1896, in which all prices were at the bottom, we find that prices rose continuously for fourteen years. During that period prices of farm products rose over 80 per cent. Non-agricultural commodities increased only 40 per cent. There is nothing, therefore, in the price movements in America to indicate that agricultural prices lag behind other prices. In fact they outran them, and they did this despite an increase of more than 25 per cent in production measured in physical terms. According to the Department of Agriculture the value of farm products, exclusive of crops fed to livestock, increased from $2,904,000,000 in 1897, the first year for which the figures are given, to $7,191,000,000 in 1910 and to $7,826,000,000 in 1913. While the general price level had risen 50 per cent, the value of the farmer's product had risen 170 per cent. The number of people working on farms who produced this product had increased by only about 10 per cent. All the evidence of the period from 1896 to the outbreak of the European war indicates that the prices of farm products do not tend to lag behind, but rather to outrun other prices.

At the beginning of the seventies there were 2,660,000 farms in the United States; by 1900 we had added over 3,000,000 to that number. In other words we had more than doubled the number of farms and had added an empire to our agricultural territory. Even in the ten years between 1890 and 1900 with dire depression in industry, we settled more than 1,100,000 of these farms. After the beginning of this century the increase continued, but at a much slower rate. By 1910 we had added another 624,000 farms. But this was not sufficient to keep pace with our growth of population. Production ceased to outrun consumption and began to lag behind. The export surplus declined, until in 1914 we were actually importing meats. No wonder prices of farm products rose.

Since 1910 the number of farms has actually decreased. There are today fewer farms and fewer persons engaged in farming than there were fifteen years ago. Yet our urban population has continued to grow rapidly since the beginning of this century. There were 45,000,000 people living in cities and towns in 1900; there are over 80,000,000 today. By 1930 there will be 90,000,000 in these village and urban communities to be fed by the farmers of this nation. It is clear, then, that the demand for agricultural products is on the increase now, as it was in those seventeen years which succeeded the revival of prices and of business in 1896. It is clear, too, that unless the supply of agricultural products increases in an unusual manner, their prices will hold the advance which they have made. On the demand side the forces which will maintain agricultural prices are clear as the noonday sun.

Agriculture will not decay in this situation, nor will the nation suffer a shortage of food supply. Rising prices will stimulate production, as they have during the last three decades. There are only about 10 per cent more people in agriculture today than in 1900, yet they bring forth 40 per cent more product measured in actual physical units—in bushels, tons, gallons and dozens. Any one who is acquainted with the field of agriculture knows that the people now engaged in farming can increase their output to meet the growth of population for several decades to come if the price inducement is sufficient. Higher prices will increase the use of fertilizer, machinery and better methods. Such an increase comes gradually, so that there is little danger of a supply greatly in excess of demand at profitable prices. But there is every prospect that prices will be profitable, and that the farmer will find in them a sufficient inducement to feed the people of this nation abundantly as he has fed them in years gone by; and that they will yield him a reward which will enable him to maintain a constantly increasing standard of living, as he has in the past. Land values which fell from 1920 to 1924 will again resume their orderly rise and will reflect the improved price situation. In fact they have already turned upward and will continue to rise.

Pacific International Live Stock Exposition

The Pacific International Live Stock Exposition is to be held this year at Portland, Oregon, October 31 to November 7, and as usual, the bankers of the Northwest are actively promoting an interest in it. They have been an important factor in the development of this annual show, until it has become a great agency for the betterment of the live stock industry in that section of the country. This year the list of cash offered aggregates approximately $100,000. The show includes both dairy and beef cattle, and all kinds of live stock. In view of the good conditions now prevailing in the sheep and swine industries and the symptoms of revival to be seen in the cattle industry is expected that interest in this year's exposition will surpass its predecessors both in attarctions and popular interest.

Chicago, Milwaukee & St. Paul Reorganization Plan

Messrs. Kuhn, Loeb & Company and The National City Company, as reorganization managers for the Chicago, Milwaukee & St. Paul Railway Company, published the following statement on September 19:

"The deposits to the close of business on September 15 amounted to over $168,000,000 par value of securities, of which over $97,000,000 were bonds. The depositaries have been instructed to continue to accept deposits for the present without penalty and deposits are continuing in large volume. The amount of bonds already deposited represent 68% of the outstanding Puget Sound Mortgage bonds and about 40% of the other bonds and debentures dealt with under the plan, all of which are secured under the General and Refunding Mortgage. These deposits assure the consummation of the plan.

In order to remove any misunderstanding which may exist on the part of security holders, the reorganization managers state that they are, of course, in sympathy with efforts on behalf of the security holders of the Chicago, Milwaukee & St. Paul Railway and other Northwestern carriers to obtain adequate rates, and that doubtless a considerable amount of the securities already deposited under the plan are also included in those spoken for by various committees formed for that purpose. The reorganization managers and the bondholders' and stockholders' committees are convinced, however, that delay in the reorganization pending the determination of the rate question is not in the interest of the security holders.